

**BILL NO. BL2018-1319** (MENDES, VERCHER, & ROSENBERG) – This ordinance, as amended, would amend Chapter 5.06 of the Metropolitan Code of Laws regarding tax increment financing (TIF).

This ordinance would amend section 5.06.010 to create definitions of “schools taxes” and “schools taxes percentage”. “School taxes” would mean (a) for properties located in the General Services District, that portion of property taxes designated to be distributed to the General Services District Schools Fund, and (b) for property in the Urban Services District, that portion of property taxes distributed to the General Services District Schools Fund. “Schools taxes percentages” would mean the percentage of taxes obtained by dividing the schools taxes for the applicable year by the total taxes for the applicable year.

This ordinance would then amend Section 5.06.050 by adding a subsection requiring that schools taxes be retained by Metro (or, if received by a tax increment agency pursuant to TIF, paid to Metro) before any incremental tax revenues could be used to pay the principal and interest on TIF loans. The amount of school taxes to be retained by or paid to Metro for each TIF loan would be determined by multiplying the total taxes from all parcels generating incremental tax revenues pledged to secure the TIF loan by the schools taxes percentage applicable as of the date of the closing of the TIF loan. This would apply to all TIF loans authorized by a tax increment agency after the effective date of this ordinance.

This ordinance bears resemblances to ordinance no. BL2016-157, adopted by the Council in 2016, which similarly retained all “debt service taxes” from the incremental tax revenues otherwise available to tax increment agencies.

In 2012, a state law was enacted requiring the allocation of base taxes and dedicated taxes to local governments for properties within redevelopment plan areas -- but making no provision for the retention of schools taxes. However, this state legislation -- entitled the “Uniformity in Tax Increment Financing Act of 2012” -- provides that it does “not apply to a plan (or any amendment to such plan) for which required public hearings were conducted prior to the effective date of this act...” All existing redevelopment districts in Davidson County were established prior to 2012.

*Fiscal Note: Metro operates with six primary funds in the annual operating budget. These are the GSD Operating Fund, the USD Operating Fund, and the Schools Operating. In addition to these three, there is a corresponding Debt Service Fund for each.*

*As part of the operating budget each year, a determination is made as to how much of the property tax revenues collected by Metro are to be credited to each of these six funds. The budget ordinance each year includes tables that show this division of the property tax revenues.*

*One of the funding mechanisms used by MDHA for new developments is Tax Increment Financing (TIF). A determination is made as to the incremental increase in the value of a property that results from the development. This increased value results in a corresponding increase in the total amount of property taxes that would be generated by the development. These increases are credited to these same six primary funds along with all other property tax revenues.*

*Under the initial rules, MDHA had the authority to collect all the increased property taxes from all six funds to pay for the loan used to finance the development. This was changed in 2016. For all new TIF loans, the property tax amounts allocated to the three debt service funds were kept by Metro and could not be used by MDHA for loan payments. Only the property taxes allocated to the three primary operating funds could be used for this purpose.*

*The ordinance now under consideration would increase this fund restriction to include the Schools Operating Fund along with the three debt service funds. If this is approved, only the property taxes allocated to the GSD General Fund and the USD General Fund could be used for TIF loan payments.*

*For FY19, 14.8% of the property tax revenues are to be allocated to the debt service funds. Under the current rules, this leaves the remaining 85.2% of new TIF development property tax revenues that can be used to pay for the loans. The amount that is to be allocated to Schools is 31.1%. Removing this as well as the property tax payments allocated to the three debt service funds would only leave 54.1% of the new TIF development property tax revenues that could be used to pay for the loans.*

*The amount of total property taxes that would be paid to Metro would remain the same. The net impact would be to keep the additional 31.1% for the Schools Operating Fund instead of including this amount in the pool that could be used by MDHA for TIF loans.*